

63

domination

II. Nature of Aid Program

A. Less Developed Countries - Sov aid mainly credits - accompanied by trade offers or expression of willingness to trade

1. Size of Bloc program (1954 to date)

(a) Total Bloc credits and grants - \$2.2 billion extended to 18 countries - but 9 countries received 97 percent

USGR \$1.4 billion

0.7

C. China \$0.1

of which military credits total \$482 million

USSR \$125 million

Czech \$312

Couch and

Poland \$45 " (Indonesia)

(b) trade expansion - Bloc trade with 9 major recipients of aid increased 400 percent since 1954.

Trade with Egypt - 400 percent inc since 1953; Syria -
800 percent inc since 1953

USSR trade with underdeveloped areas up 500% since 1953

(c) Technicians - Bloc ex technicians in underdev countries
in 1958 - 2,195; mil specialists 1,390

1,508 mil personnel from underdev countries trained
in Bloc since 1955

2. Opportunistic policy and techniques - one or several conditions usually exist:

(a) Accumulation of unsold exports - Bloc purchases

Sudan, Egypt - cotton

Latin America - coffee

(b) Requirements for hard-to-get goods - Bloc sales on credit

Near East - arms

India - development goods

Latin America - oil, development goods

(c) Internal or external strife - exacerbated by Bloc policies

Indonesia - civil war - issued Bloc response to arms request, \$45 mil equipment, including aircraft, contracted for

Yemen - designs on Aden, harass Br. along border

Egypt - Israeli tensions and Arab nationalism

Latin America - ec depression, political instability

3. Reasons for Soviet successes - mainly in uncommitted countries

(a) Low interest rate, 2½ percent; 12 yr repayment period

(b) Willing to provide projects local leaders want regardless of their ec feasibility

Yemen - \$15 million from Soviets for port development at Ras al Khaytib not justified by shipping

Afghanistan - Bakery at Kabul - marginal ec feasibility, but local interest

- (c) Speed of implementation: Egypt, Afghan, Indonesia
- (d) By-pass foreign currency shortage; now even "local currency" aid on credit - Afghanistan
- (e) Technical training in use of machinery - Turkey, India
- (f) Gifts - Ceylon, Cambodia, Egypt, Nepal

4. Reasons for Western caution

- (a) 12 year period short
- (b) Commitment of future exports, diverts trade, loss of flexibility in purchasing pattern of recipient - Egypt (36% trade with Bloc 1957 from 15% in 1955; 53% cotton exports to Bloc in 1957 marketing season; 29 percent 1955 season)
- (c) Quality of goods not always acceptable - Syria returned Soviet vehicles
- (d) Bloc re-export of goods - Egyptian cotton; Turkish tobacco
- (e) Large area of uncertainty about burden of repayments - prices of goods in repayment and percent repayment in hard currency left to later bargaining
- (f) Continuance of aid unpredictable - Jugoslavia, Israel, Japan
- (g) Bloc blunders - Burma - cement - poor planning

5. Attempts to weaken Western defense system - aid and trade offers to countries allied to West - no notable success but persistent efforts

Examples: Greece, Iran, Pakistan

B. Industrialized Countries

1. Increased activity in Western markets - purchase machinery for consumer industries, chemicals, plastics, synthetic fibers
 - (a) \$12 million machinery from Krupp for production artificial fibers
 - (b) \$28 million tire factory from UK
 - (c) \$14 million cement plant from France
2. Proposal expand trade with US
 - (a) Ec motivation - related to plans expand consumer industries, but chemicals broad industrial use
 - (b) Pol motivation - propaganda, help US out of recession
3. Soviets need capital equipment from West to achieve desired growth rates - to pay for increased imports, Soviet exporting primary products in competition with some underdev countries already receiving Bloc aid or offers of aid - tin (Burma, Indonesia); petroleum (Iran)

III. Conclusion

Soviet foreign aid program major tool of Soviet foreign policy, trade and aid drive-tactic devised to expand Soviet and Communist influence in Free World and undermine Western position

NOFORN - CONTINUED CONTROL

Background Notes

II. Nature of Aid Program

1. Size

1 (a) Breakdown of military credits (\$US million)

USSR - \$25-Afghanistan; \$100-Syria

Czechoslovakia - \$250-Egypt; \$10-Yemen; \$45-Syria;
\$7-Afghanistan

Czechoslovakia and Poland - \$45 (estimated)-Indonesia

1 (b) 9 major aid recipients

Also heavy traders with Bloc, Afghanistan, Burma, Ceylon,
Egypt, India, Indonesia, Yugoslavia, Yemen, Syria

1 (c) Military personnel training in Bloc from 4 countries

Egypt, Afghanistan, Syria and Indonesia

area of training within Bloc: USSR-545, Poland-525
Czechoslovakia-435, E.G.-3

2. Opportunistic Policy

2 (a) Sudan

Mid-1957 Sudan experiencing cotton marketing difficulties-
exports off due to artificially high price-Soviets made
token purchase, followed up with offer to increase
purchases and provide economic aid-offer rejected and
Sudan temporarily coped with problem by lowering price.
Persistent Soviet offers softened Sudanese resistance-

NOFORN - CONTINUED CONTROL

now agreed to enter negotiations for economic assistance and barter trade agreement

Latin America

Argentina, Brazil, Uruguay difficulties selling principal export crops-large petroleum requirements but shortage of foreign exchange to buy from traditional Western suppliers-Soviets offered supply petroleum, accept commodities in return-all but Brazil accepted offer and appears it will follow suit

3. Reasons for Soviet Successes

3 (b) Speed of Implementation

Egypt - mission to USSR in November 1957, general agreement signed January 1958, Soviet specialists arrived to discuss projects within next few months

Afghanistan - Bulganin and Khrushchev made offer of \$100 million credit during visit December 1955, agreement signed January 1956, Soviet technicians sent soon thereafter to discuss projects to be undertaken

Indonesia - shopping mission visited Eastern Europe within 3 months arms began arriving, Soviets supplied ships for interrupted interisland trade promptly within 2 weeks from time of request. 12 received from USSR already, Poland also to supply some

3 (c) "Local Currency" Aid to Afghanistan

Construction of Naghlu hydroelectric project under Soviet credit delayed due inelastic local money supply and fear of inflation, Soviets now agreed to send machinery, consumer goods and steel for sale on local market, chargeable to \$100 million credit, local currency generated by sale to be used to cover local costs of project

3 (d) Soviets to train Turks in USSR to operate glass factory to be built on 3-year credit from USSR; over 100 Indians being trained in steel technology in USSR for future work at Bhilai

3 (e) Gifts

Communist China grant to Cambodia - \$22.4 million
\$16 million grant to Ceylon for rubber replanting
Soviet Union gift of hospital to Afghanistan also Cambodia
Soviets sent medical supplies to Egypt at time of Suez crisis

4. Reasons for Western Caution

4 (a) Continuance of aid unpredictable

Yugoslavia - Soviets postponed \$245 million in credits, obvious act of reprisal for Yugoslavia's independence on ideological matters-falseness of "no strings" protestations, Soviets maintain, however, they are willing to provide goods on strictly commercial basis

Israel - Soviets cancelled without indemnification contract to supply oil after Israeli-Egyptian conflagration of 1956-economic agreements subject to diplomatic demarches, possibility of similar Soviet action in future since Soviet diplomacy subject so many unpredictable, tactical shifts

Japan - Communist China also playing politics with economic weapons-to embarrass and undermine Kishi government-abrogated \$197 million trade agreement, refused renew annual trade accord, cancelled \$.5 billion steel trade agreement-trying to put economic squeeze on Japan

5. Offers to Members of Western Defense System

Greece - in newspaper interview Khrushchev recently proposed expanded barter trade-appealed to Greeks having difficulty marketing agricultural products-no need for Greece use scarce dollars obtain machinery and equipment, Soviets will provide in return for agricultural commodities

Pakistan - cotton marketing difficulties (already led to barter deal with Communist China-cotton for coal), inflation, high military budget, Soviets offering aid, developmental assistance

Iran - since 1956 persistent Soviet offers of large-scale economic aid, Iran not accepted but has entered into specific agreements with Soviet Union as result of improved relations (joint surveys of border rivers with view to development of irrigation potential, transit agreement) Soviet offers continue

Turkey - inflation, large foreign debt, requirements for ambitious development schemes, shortage for exchange, conditions in last four years diverted substantial trade to Bloc (18% in 1957) - recent discussions concerning Soviet offer of \$250 million in aid-recent bid in "Izvestia" for expanded trade-according to paper "bogus" Soviet threat created by Turkey's western allies who impose unnecessary military expenditures on Turkey, this bleeding Turkey economy and cause of economic problems